

OAKLAND UNIFIED SCHOOL DISTRICT
Board Policy

BP 3100.1

Business and Noninstructional Operations

Financial Reserves

I. Authority:

The Board of Education is responsible for legislation, policy formulation, and overall direction setting of the Oakland Unified School District ("The District"). This includes the setting of budget priorities and approval of financial policies which establish ~~and direct the~~ the structure for the District's operations. The Superintendent is responsible for carrying out the policy ~~directives~~ direction of the Board of Education and managing the day-to-day operations of the executive departments, including the Finance Division.

II. Purpose:

The District shall strive to maintain certain reserve funds to provide financial stability~~desires to maintain a prudent level of financial resources and~~ to guard students and educators against service disruption in the event of unexpected temporary revenue shortfalls, unanticipated economic downturns, or unpredicted one-time expenditures. In addition, this policy is intended to ~~document the appropriate~~ set the preferred Reserve level to ~~protect~~ sustain the District's ~~credit worthiness~~ strong credit ratings. The General Fund Operating Reserves are accumulated and maintained to provide stability and flexibility to respond to unexpected adversity and/or opportunities.

This policy establishes the amounts the District will strive to maintain in its General Fund Operating Reserve, how the Reserve will be funded, and the conditions under which Reserve may be used. To the extent that the District reserve levels are not currently within the goals set by this policy or later fall below the goals, a plan shall be developed to phase in this policy within the District's three year budet cycles.

III. Applicability and Scope:

This policy shall apply to the General Fund.

IV. Definitions and Acronyms:

- A. Capital Improvement Plan (CIP) - A plan that describes the capital projects and associated funding sources the District intends to undertake in the current year plus five additional future years, including the acquisition or construction of capital facilities and assets, and the maintenance thereof.
- B. Cash Balance - The sum of cash and Cash Equivalents of an accounting fund
- C. Cash Equivalent - In the context of cash flows reporting, short-term, highly liquid investments that are both 1) readily convertible to known amounts of cash and 2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. For this purpose, "original maturity" means maturity as of the date

Commented [MLM1]: I suggest that this section move to an Admin Reg so that it can more easily be added to without bringing a BP revision each time a term is developed. Also, BP 3100 has some definitions too. So it could be added to that BP.

Commented [2]: Cross reference with the CSAM. Procedure 101. Governmental accounting.

OAKLAND UNIFIED SCHOOL DISTRICT
Board Policy

BP 3100.1

Business and Noninstructional Operations

Financial Reserves

the investment is acquired.

- D. Fund Balance - Fund Balance is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in a governmental fund.
- E. General Fund - One of five governmental fund types. The General Fund typically serves as the chief operating fund of a government. The General Fund is used to account for all financial resources not accounted for in some other fund.
- F. One-time Item - An expenditure that has not occurred in the previous two years and is not expected to occur in the following year.
- G. Pooled Cash - The sum of unrestricted cash and investments of several accounting funds that are consolidated for cash management and investment purposes. Investment income or expenditure is allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.
- H. Reserve - Reserve refers only to the portion of Fund Balance that is intended to provide stability and respond to unplanned events or opportunities.
- I. Unassigned Fund Balance - The difference between total Fund Balance in a governmental fund and its nonspendable, restricted, committed, and assigned components.

~~V. Related Policies, Documents, and References *[Further update to OUSD Policies]*~~

~~A. Capital Asset Investment and Management Policy~~

~~B. Long Term Financial Planning Policy~~

~~Operating and Capital Budget Policy~~

~~C. District Administrator policies as applicable~~

VI. Policy:

- A. **Reserve Levels** ~~— State law requires available reserves for the District's budget year or two subsequent fiscal years to be at 2% of total expenditures and other financing uses. (CCR 15450). The Board views the 2% as a floor for the desired level of reserves and, B based on best practices¹, the District ~~will strives to budget and~~ maintain a minimum level of Unassigned Fund Balance in the General Fund equivalent to three months of regular, on-going operating expenditures (including~~

Commented [MLM3]: Typically, our format has related policies at the end of the policies in a notes section. I think we should incorporate any changes to these related policies as part of the work plan of a standing budget committee (if adopted) and move to CSBA policies. I'd love to work on that with the committee.

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¹ See, Government Finance Officers Association, "Appropriate Level of Unrestricted Fund Balance in the General Fund" <http://gfoa.org/appropriate-level-unrestricted-fund-balance-general-fund> Accessed April 24, 2017; "Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."

OAKLAND UNIFIED SCHOOL DISTRICT
Board Policy

BP 3100.1

Business and Noninstructional Operations

Financial Reserves

transfers out). In calculating the appropriate levels of reserve, significant one-time expenditures should be excluded ~~major gifts~~. The District will measure its compliance with this policy as of June 30th each year, as soon as practical after final year-end account information becomes available (*using Estimated Actuals for an initial assessment and Unaudited Actuals for further review*). During the course of the year, the Finance Division shall closely monitor the District's revenues and expenditures to ensure Reserves are not used beyond any planned expenditure. If, based on staffs analysis and forecasting, the target level of Reserves is not being met or are likely to not be met at some point within a ~~three~~five-year time horizon, then during the annual budget process, Fund Balance levels will be provided to the Board of Education. Should the projected year-end Fund Balance be below the minimum Reserve amount established by this policy, a plan to replenish the Reserve, within one to three years, would be established based on the requirements outlined in this policy.

- B. **Periodic Review of Appropriate Reserve Targets** - At a minimum, during the budget process, staff shall review the current and ~~five~~three-year projected Reserves to ensure that they are appropriate given the economic and financial risk factors to which the District is subject. The Finance Division will prepare an annual report with a recommendation to the Board of Education regarding the appropriate level of reserve. Within the context of long-term forecasting, the Finance Division should consider a variety of factors, including:
- i. The predictability of revenues and the volatility of expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
 - ii. Exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
 - iii. The potential drain upon general fund resources from other funds, as well as, the availability of resources in other funds;
 - iv. The potential impact on the District's bond ratings and the corresponding increased cost of borrowed funds;
 - v. Commitments and assignments (i.e., the Board of Education may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose). The Board of Education may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance, rather than on unrestricted fund balance.
- C. **Funding the Reserve** - Funding of General Fund Reserve targets will *generally* come from excess revenues over expenditures, vacancy savings, or one-time unrestricted revenues.
- D. **Conditions for Use of Reserves** - It is the intent of the Board to limit use of General Fund Reserves to address unanticipated, Non-Recurring needs. Reserves shall not normally be applied to recurring annual operating expenditures. Reserves

OAKLAND UNIFIED SCHOOL DISTRICT
Board Policy

BP 3100.1

Business and Noninstructional Operations

Financial Reserves

may, however, be used to allow time for the District to restructure its operations in a deliberate manner (*as might be required in an economic downturn*), but such use will only take place in the context of an adopted long-term plan.

E. **Authority over Reserves** - The Board of Education may authorize the use of Reserves. The Finance Division will regularly report both current and projected Reserve levels to the Board of Education.

~~F. **Assigning Fund Balance** - The Superintendent and Senior Business Officer are hereby authorized to assign Fund Balance for specific purposes in accordance with the intent and actions of the Board of Education.~~

~~G.F.~~ **Replenishment of Reserves** - In the event that Reserves are used resulting in a balance below ~~three~~ two months minimum, a plan will be developed and included in the formulation of the ~~five~~ ~~three~~ year forecast presented during the annual budget process.

~~H.G.~~ **Excess of Reserves** - In the event Reserves exceed the minimum balance requirements, at the end of each fiscal year, any excess Reserves may be used in the following ways:

- a. Fund accrued liabilities, including but not limited to debt service, pension, and other post-employment benefits as directed and approved within the long-term financial plan and the annual budget resolution. Priority will be given to those items that relieve budget or financial operating pressure in future periods;
- b. Appropriated to lower the amount of bonds or contributions needed to fund capital projects in the District's CIP;
- c. One-time expenditures that do not increase recurring operating costs that cannot be funded through current revenues. Emphasis will be placed on one-time uses that reduce future operating costs; or
- d. Start-up expenditures for new programs, provided that such action is approved by the Board of Education and is considered in the context of multi-year projections of revenue and expenditures as prepared by the Finance Division.

VII. Quality Control and Quality Assurance:

It is the responsibility of the ~~Senior Business Officer~~ Superintendent or designee to ensure the presence of procedures that provide sufficient guidance to affected District personnel to fulfill the intent of this policy.

These policies will be reviewed at least annually and updated on an as-needed basis.

~~VIII. **Metrics:**~~

~~To be developed and managed accordingly.~~

~~IX. **Records:**~~

~~There are no records associated with this policy.~~

OAKLAND UNIFIED SCHOOL DISTRICT
Board Policy

BP 3100.1

Business and Noninstructional Operations

Financial Reserves

~~X. **Process Flow Map:**~~
~~Not applicable.~~

~~XI. **Forms:**~~
~~Not applicable.~~

OAKLAND UNIFIED SCHOOL DISTRICT
Board Policy

BP 3100.1

Business and Noninstructional Operations

Financial Reserves

~~XII. — Appendices:~~
~~Not applicable~~